

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: May 24, 2011
POSITION: Oppose
SPONSOR: Board of Equalization

BILL NUMBER: AB 289
AUTHOR: G. Cedillo

BILL SUMMARY: Sales and Use Tax Exemption: Charitable Thrift Stores

This bill would extend until January 1, 2019, the sales and use tax exemption for retail items sold by thrift stores operated by nonprofit organizations, if the purpose of the thrift store is to obtain funding for medical, hospice, or social services provided to individuals with HIV or AIDS by the nonprofit organization.

FISCAL SUMMARY

According to the Board of Equalization (BOE), this bill is expected to result in \$1.014 million in annual losses of state and local revenue, including \$625,000 General Fund.

Costs for the BOE would be minimal because they currently administer the exemption. Likewise, costs to discontinue the exemption would not be significant because there are only a small number of thrift stores that qualify for the exemption.

COMMENTS

The Department of Finance is opposed to this bill because it will result in a revenue loss to the state.

Analyst/Principal (0721) C. White	Date	Program Budget Manager Mark Hill	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
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G. Cedillo

May 24, 2011

AB 289

ANALYSIS**A. Programmatic Analysis**

Under existing law, the sales tax or the use tax applies to the sale or use of tangible personal property (including second hand property), unless specifically exempted or excluded from the tax. Current law provides a sales and use tax exemption for sales of used clothing, household items, and other retail items sold by thrift stores operated by a nonprofit organization. To qualify, the purpose of the thrift store must be to obtain revenue for the funding of medical, hospice, or social services to chronically ill individuals with AIDS or HIV, and at least 75 percent of those revenues must actually be expended for that purpose. This is due to sunset January 1, 2012 and has been in effect since 1996.

Current law also provides an exemption for sales by other charitable organizations. Sales (including thrift store sales) by charitable organizations are exempt from sales and use tax under the following conditions:

- The organization must be formed and operated for charitable purposes and must qualify for the "welfare exemption" from property taxation.
- The organization must be engaged in the relief of poverty and distress.
- The organization's sales or donations must be made principally as a matter of assistance to purchasers or donees in distressed financial condition.
- Property sold by the organization must have been made, prepared, and assembled or manufactured by the organization.

For example, merchandise that meets the above conditions and sold through thrift stores operated by Goodwill Industries, the Salvation Army, and St. Vincent de Paul would qualify for the exemption.

This bill would extend from January 1, 2012 to January 1, 2019, the sunset date on the exemption for sales of used clothing, household items, or other retail items by thrift stores operated by a nonprofit organization, if the purpose of the thrift store is to obtain revenue for the funding of medical, hospice, or social services to the chronically ill with AIDS or HIV. At least 75% of the net income derived from operations of the thrift store must be expended for the purpose of providing medical, hospice, or social services to chronically ill individuals with AIDS or HIV.

Discussion

This bill is sponsored by the Board of Equalization (BOE). In a support letter dated July 13, 2011, the BOE said the following: "All thrift stores operated by nonprofit organizations arguably have purposes as laudable as those of the Salvation Army, Goodwill Industries and St. Vincent de Paul, who have long benefited from an exemption from the sales and use tax for their thrift store sales of goods. Extending the exemption contained in existing law for goods sold through these nonprofit thrift stores should be treated similarly as the other thrift stores currently qualifying for an existing exemption, such as those operated by the Salvation Army, Goodwill Industries and St. Vincent de Paul.

B. Fiscal Analysis

According to the Board of Equalization (BOE), this bill is expected to result in \$1.014 million in annual losses of state and local revenue, including \$625,000 General Fund.

Costs for the BOE would be minimal because they currently administer the exemption. Likewise, costs to discontinue the exemption would not be significant because there are only a small number of thrift stores that qualify for the exemption.

BILL ANALYSIS/ENROLLED BILL REPORT--(CONTINUED)**Form DF-43****AUTHOR****AMENDMENT DATE****BILL NUMBER**

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Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							
	LA	(Dollars in Thousands)							
	CO	PROP							Fund
	RV	98	FC	2011-2012	FC	2012-2013	FC	2013-2014	Code
1149/Sale Use Tax	RV	No	U	-\$323	U	-\$625	U	-\$625	0001
1151/SalesUseTxFr	RV	No	U	-\$16	U	-\$31	U	-\$31	3059
1148/Realign-Sale	RV	No	U	-\$31	U	-\$63	U	-\$63	0331
L149/Loc Rev Sale	RV	No	U	-\$137	U	-\$295	U	-\$295	0994
0860/Equalization	SO	No		----- No/Minor Fiscal Impact -----					0001

<u>Fund Code</u>	<u>Title</u>
0001	General Fund
0331	Sales Tax Account, Local Revenue Fund
0994	Other Unclassified Funds
3059	Fiscal Recovery Fund